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Report of the Secretary-General on the activities of the Office of Internal Oversight Services

Audit of the Investment Management Service of the United Nations Joint Staff Pension Fund

Note by the Secretary-General

1. Pursuant to General Assembly resolutions 48/218 B of 29 July 1994 and 54/244 of 23 December 1999, the Secretary-General has the honour to transmit, for the attention of the General Assembly, the attached report, conveyed to him by the Under-Secretary-General for Internal Oversight Services.

2. The Secretary-General takes note of the findings of the Office of Internal Oversight Services and concurs with the recommendations made in its report, which will serve to improve the internal control of the management of the investment operations of the United Nations Joint Staff Pension Fund.

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Audit of the Investment Management Service of the United Nations Joint Staff Pension Fund

Summary

The Office of Internal Oversight Services (OIOS) conducted audits of investment management activities and procurement and contract administration at the Investment Management Service of the United Nations Joint Staff Pension Fund.

The investment management audit identified weaknesses in the internal control system, inadequate procedures for documenting the investment process and a need to improve the efficiency and transparency of investment operations. The audit of procurement and contract administration revealed a number of problem areas requiring management's attention, including the absence of documented procedures, non-compliance with United Nations procurement policies, inadequate monitoring of vendor performance and insufficient tracking and monitoring of the procurement process and contract administration.

The main findings were as follows:

Investment management

- The organizational structure of the Investment Management Service was flat and did not provide for an adequate supervisory framework and segregation of duties;
- The Director of the Service directly managed the real estate investments of the Fund, which did not provide for an acceptable level of accountability;
- One senior investment officer alone managed a $6.5 billion North American equity portfolio, representing about 30 per cent of the Fund's total investments, which appeared to be an excessive concentration of investment responsibility;
- There was inadequate segregation of duties between the front office and the back office in the security-trading process, contrary to sound industry practice;
- There was no evidence to indicate that the use of non-discretionary investment advisers, at a cost of $15.2 million for the biennium 2001-2002, added any significant value to the decision-making process for individual equity transactions. OIOS found no comparable examples in the industry of such practice in the execution of investment transactions;
- The Service's Organization, Policies and Procedures Manual was insufficiently detailed and outdated, and some procedures were not documented. The lack of a comprehensive manual risked improper interpretation and the application of relevant procedures;
- No code of ethics had been developed for staff involved in the investment operations in line with standard investment industry practices.

Procurement and contract administration

- The segregation of duties was inadequate with respect to the formalization of contractual arrangements and the signing of agreements for investment advisory, custodial and record-keeping services;
- Internal procedures on procurement and the administration of contracts in the investment area were not documented, and the functions of the entities and the responsible staff involved were not formally defined;
- Although no procurement authority had been delegated, the Service directly processed extensions of contracts/agreements and negotiated contract terms and conditions with vendors;
- There was no monitoring of contract compliance or review of vendor performance by designated officials of the Service;
- The Service processed extensions of the three-year agreements with the Fund's record-keeping service contractor and two regional custodians long before their expiration dates without adequate justification or evaluation of the vendors' performance.

The audits also disclosed other shortcomings, which, although not as critical to the safeguarding of the Fund's assets, were important to enhancing the overall control environment.

The representative of the Secretary-General for the investments of the Fund at the time of the audit accepted most of the recommendations of OIOS, which are in various stages of implementation. The Investments Committee also discussed the observations of OIOS at its meeting in November 2002 and noted that some recommendations had already been addressed, while others needed further consideration and would be addressed at a later stage.

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I. Introduction

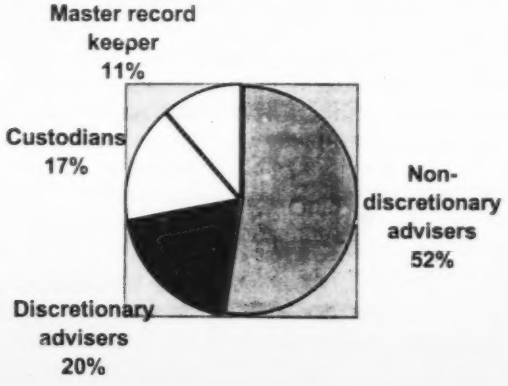
1. The United Nations Joint Staff Pension Fund (UNJSPF), a pension fund for employees of the United Nations and 18 related agencies, was established in 1949. The operational administration of the Fund is entrusted to the Chief Executive Officer, who also serves as Secretary of the United Nations Joint Staff Pension Board. The Chief Executive Officer is assisted by the Fund's central secretariat, comprising 121 staff members.

2. Management of the investment of the Fund's assets is the fiduciary responsibility of the Secretary-General of the United Nations, who acts in consultation with the United Nations Investments Committee, taking into account the observations on policy issues of the United Nations Joint Staff Pension Board and the General Assembly. The Under-Secretary-General for Management is designated as the representative of the Secretary-General for the management and administration of the investments of UNJSPF on behalf of the Secretary-General. The representative is assisted by the staff of the Investment Management Service, which manages the Fund's portfolio.

3. UNJSPF invests in a global portfolio of debt and equity securities, principally equity stocks, in North American, European and Asian markets and to a lesser degree in real estate. As at 30 September 2002, the market value of the Fund's investments stood at $19.9 billion, which represented a decline of $6.1 billion (23.6 per cent) from its highest level, in March 2000.

4. Services in the area of investments are generally procured through the regular United Nations procurement mechanisms, and the Investment Management Service is responsible for related controls over contract administration. For the biennium 2000-2001, the costs related to acquiring investment advisory services (4 non-discretionary institutional investment advisers and 5 discretionary investment advisers),[1] custodial services (4 custodians)[2] and record-keeping services (1 master record keeper)[3] totalled $29.1 million, which were distributed as follows:

Distribution of investment advisory, custodial and record-keeping service costs



5. The Office of Internal Oversight Services (OIOS) conducted audits of investment management activities and procurement and contract administration at the Investment Management Service between September 2001 and March 2002. The main objectives of the audits were: (a) to assess the adequacy and effectiveness of internal controls; (b) to check the reliability of reported data; (c) to assess the efficiency and effectiveness of the investment operations; and (d) to assess compliance with existing rules, regulations and policies.

II. Investment management

6. The investment management audit covered the operations of the Investment Management Service during the biennium 2000-2001 and included: (a) a review of investment policies and procedures; (b) an analysis of the decision-making process for investment management; (c) an assessment of investment performance reporting (internal and external); and (d) random testing of investment transactions. In order to assess the appropriateness of the Service's investment procedures and practices, OIOS consulted with other organizations on their pension fund investment procedures and obtained information on best practices in the industry.

A. Internal controls

1. Policies and procedures

7. The Investment Management Service's Organization, Policies and Procedures Manual describes, in general terms, the investment management process. However, some procedures were not documented or were insufficiently detailed. The Manual also contains conflicting statements and errors, and some provisions do not reflect the current organizational structure and actual workflow of operations.

2. Segregation of duties

8. In the investment industry, sound internal control practices for trading securities require that the functions of the front and back offices be strictly segregated. However, OIOS found that some procedures set out in the Manual were contrary to this internal control practice. For example, the Investment Section (front office) initially verified trade confirmations received from brokers, rather than the Operations Section, which performs the back-office functions in the trading process. This situation creates a risk that investment staff could conceal irregular transactions.

3. Compliance with established procedures

(a) Approval authority limits

9. The representative of the Secretary-General for the investments of UNJSPF and the Director of the Investment Management Service had unlimited joint approval authority for the execution of investment transactions and the handling of the Fund's assets. However, in view of the internal control practices customary in the industry and the market value of the Fund's assets (about $20 billion), in the opinion of OIOS, the approval of very large transaction amounts (e.g., over $100

million) should be exercised with the advice of a collegial body, such as the Investments Committee or a subcommittee thereof established for that purpose.

(b) Execution of investment recommendations

10. The investment process in the Investment Management Service starts with the formulation and processing of an investment recommendation for a particular security, which can be initiated by either a contracted investment adviser or an investment manager of the Service. The Service obtains the opinion of the non-discretionary advisers for all recommendations on equity trading. The Manual states that after approval of the recommendation, the Service will transmit appropriate instructions to the adviser, brokers and master record keeper in writing using an order form.

11. OIOS found that trade orders could be executed as long as three months after the date of the recommendation. According to the Investment Management Service, the investment manager alone establishes the execution dates at any time during the recommendation's validity. However, considering the volatility of the market, especially in recent years, the recommendation of the adviser may not be valid for the entire period of time permitted for executing the recommendation. Moreover, the Manual does not specify the three-month time frame for the execution of trade recommendations practised by the Service.

(c) Inadequate procedures for documenting the investment process

12. A review of investment transactions showed that in some cases, the investment process had not been adequately documented. There were also instances in which the order approval and/or trade dates preceded the date of the recommendation's approval by up to one week. According to the Investment Management Service, transactions may be executed prior to their written authorization if market conditions are volatile. In such cases, verbal approval is obtained prior to the execution of the trade, followed by the written authorization. In the opinion of OIOS, such verbal approvals should be documented and kept on file, since a lack of documentation of the approval could lead to unauthorized transactions going undetected for extended periods of time.

B. Investment process

13. Pursuant to articles 19 and 20 of the UNJSPF regulations, the Investments Committee assists the Secretary-General in the investment of the Fund's assets by advising on investment policies, asset allocation and strategy, diversification by type of investment, currency and economic sector and other related matters. However, the functions of the Investments Committee are only advisory in nature, whereas investment committees in public and private sector pension funds play a more active role and are charged with wider responsibilities, such as establishing and maintaining investment policies, standards and procedures; providing a system for monitoring investment returns and assessing the performance of portfolio managers; and hiring and dismissal of investment managers. OIOS will review this governance issue in a future audit.

1. Use of investment managers

14. In 1998, an expert contractor conducted an operational audit of Investment Management Service activities and recommended that the Service increase the

number of investment managers to achieve more efficient portfolio management. At the time of the OIOS audit, the Fund's portfolio was managed by the Director (real estate transactions), six Investment Management Service investment officers (stocks and fixed-income securities) and six discretionary advisers for managing small capitalization accounts (representing about 4 per cent of the Fund's portfolio). Although in the past three years the Service has increased the number of portfolio managers by one discretionary adviser and two investment officers, in the opinion of OIOS there is still a need for additional resources to conform to industry practice.

2. Non-discretionary investment advisers

15. The Investment Management Service uses four non-discretionary investment advisers, who provide economic and capital market analysis and make recommendations on investment strategy and the individual investments of the Fund. The total fees for their services in the biennium 2000-2001 amounted to $15.2 million, or 40 per cent of the Fund's total investment costs. Each recommendation on the purchase or sale of an individual security approved by the Service and the representative of the Secretary-General has to include the opinion of one of the non-discretionary advisers.

16. OIOS is concerned that, under the current arrangements, it is not clear whether there is significant value added by using non-discretionary investment advisers for advice on individual equity transactions, considering that such advice is also available from the full-service brokers used by the Service, and from other sources. Furthermore, the Service's investment officers, who are internal portfolio managers, do their own research and analysis as well. In addition, OIOS found no comparable examples in the investment industry where internal portfolio managers who use full-service brokers are also assisted by non-discretionary advisers in executing individual investment transactions.

17. OIOS also made the following observations on the Fund's use of non-discretionary advisers:

(a) A review of the trades executed by the Service in 2001 showed that most of the trade recommendations for equities had been initiated by its investment officers;

(b) There was no evidence that the Service assessed the services provided by the non-discretionary advisers on a regular basis or that their performance had been evaluated in terms of the quality of their advice. Furthermore, no performance parameters had been established against which to measure the advisers' performance and the value added by their recommendations;

(c) The agreements with the advisers provided for a flat fee for services. As the fee is not broken down by component, it was impossible to determine the proportion of costs by type of service rendered.

3. Discretionary advisers

18. The Investment Management Service supervises the management of six small capitalization equity accounts the managers of which have discretionary authority in handling such accounts in Japan (1 adviser), North America (3 advisers) and Europe (2 advisers). The total allocation of assets to the external managers/advisers with discretionary authority, as at 1 January 2002, was about 4 per cent of the Fund's portfolio.

19. According to the Investment Management Service, there is limited monitoring of these managers by the investment officers, since they are discretionary managers and should be given the scope to manage their portion of the portfolio. The discretionary advisers submit activity reports to the Service on a quarterly basis. However, OIOS found no evidence to indicate that their performance was monitored by the Service on an ongoing basis. The lack of regular performance monitoring (including the establishment of benchmarks) may have an adverse impact on the investment performance of the Fund, and provides no basis for determining whether the investment managers should be retained.

C. Organizational structure and personnel issues

1. Organizational structure and operational responsibilities

20. The OIOS review of the organizational structure and operational responsibilities of Investment Management Service staff identified the following internal control issues:

(a) The organizational structure is flat and has not provided for adequate supervisory review. All investment officers report individually to the Director on both administrative and operational matters, which, in the view of OIOS, does not reflect an adequate segregation of duties;

(b) The Director of the Service, with the assistance of a senior portfolio assistant, directly manages the execution of real estate transactions, which does not allow for an acceptable accountability mechanism. According to the Manual, this function is supposed to be performed by the Investment Section. Thus there are no adequate checks and balances in the execution of real estate transactions;

(c) Only one senior investment officer manages the $6.5 billion North American equity portfolio, representing about 30 per cent of the Fund's total assets. In the view of OIOS, this concentration of responsibility is inadvisable, since it is unreasonable to expect that one person would be able to keep abreast of all developments concerning North American equity markets.

2. Code of ethics

21. The Staff Regulations and Rules together with the standards of conduct for the international civil service, which were adopted by the General Assembly in its resolution 56/244 of 24 December 2001, establish the values, principles and standards of conduct of United Nations staff members. However, there is no specific code of ethics for Investment Management Service staff who are involved in investment operations and perform investment management functions on behalf of UNJSPF, contrary to investment industry practice. Furthermore, the Assembly, in paragraph 10 of its resolution 52/252 of 8 September 1998, requested that the Secretary-General prepare additional rules of conduct for particular groups of staff, such as finance officers, procurement officers and staff of separately funded organs. In the opinion of OIOS, the staff of the Investment Management Service should be considered such a group. It should also be noted that although staff regulation 1.2 (m) and staff rule 101.2 (o) address the issue of conflicts of interest and set certain financial disclosure requirements for staff members, the procedures for the filing and utilization of financial disclosure statements as provided for under staff rule

101.2 (p), have not yet been established, except for staff members at the Assistant Secretary-General level and above, pursuant to staff regulation 1.2 (n).

22. In the view of OIOS, the Service should adopt an appropriate code of ethics for its investment staff and incorporate in the Manual specific elements of the code, including industry guiding principles, standards of conduct, policy on personal investments, descriptions of conflict of interest and requirements to periodically acknowledge the awareness of professional obligations and ethics. The Board of Auditors also raised this issue in its report on the accounts of the Fund for the biennium ended 31 December 2001.[4]

3. Personnel issues

(a) Rotation and replacement policy

23. According to the management of the Investment Management Service, investment officers are occasionally rotated within the Investment Section for internal control purposes. The first such rotation took place in 2001. While OIOS acknowledges this measure as an internal control tool, there is a need to establish a formal policy on staff rotation and to clearly define rotation requirements and time frames. OIOS also found that there was no succession plan for assigning or replacing investment management staff. A replacement is decided on only when the need arises.

(b) Performance evaluation of investment officers

24. The Investment Management Service does not maintain records on investment performance for the individual investment officers who manage the Fund's portfolio. According to the management of the Service, each investment officer is evaluated on the basis of the performance of his or her respective portfolios by market, and that performance is documented in the officer's Performance Appraisal System report (PAS). OIOS noted, however, that the goals documented in the PAS were not standardized for all investment officers, and specific quantitative benchmarks were not always included. It should also be noted that the Organization, Policies and Procedures Manual did not include criteria for evaluating the performance of investment officers. In the opinion of OIOS, in order to properly monitor investment performance, a formal performance tracking record should be maintained for each investment officer as a supplement to his or her PAS. The record should be updated quarterly.

III. Procurement and contract administration

25. The audit of contractual services at the Investment Management Service included a review of procurement procedures and an assessment of the contract administration system used by the Service in monitoring the process. During the period reviewed (2000-2001), 14 contractors provided the Service with advisory, custodial and record-keeping services having a total value of $29.1 million.

A. Policies and procedures

1. Procurement authority

26. Investment services are provided to the Fund in accordance with contracts (also formally referred to as agreements) that are valid for three to five years. OIOS found that all of the agreements for custodial, advisory and record-keeping services, as well as extensions to the agreements, had been signed by the former representative of the Secretary-General for the investments of UNJSPF, who was also the Under-Secretary-General for Management. Under financial rule 105.13, the Under-Secretary-General for Management is responsible for the procurement functions of the Organization (see ST/SGB/2003/7). However, in the case of procuring investment services for the Investment Management Service, the Under-Secretary-General for Management is also responsible for the requisitioning of those services as the representative of the Secretary-General. In the view of OIOS, this situation resulted in an apparent conflict in responsibilities that represented an inadequate separation of duties.

2. Procurement procedures

27. An essential aspect of internal control is the documentation of procedures. However, the procedures on procurement and the administration of contracts in the investment area had not been adequately documented, and the functions of the Investment Management Service officials involved in procuring investment services and administering contracts were not formally defined. In addition, no procedures had been developed with respect to the interaction of the Service with the relevant units and sections of the Fund's secretariat and the Procurement Division of the Office of Central Support Services at the various stages of the procurement process, including the payment of vendor invoices.

B. Compliance with established procurement procedures

1. Extension of contracts and negotiation of fees

28. All custodial, record-keeping and other related services in the investment area are contracted for through the Procurement Division of the Office of Central Support Services, subject to review by the Headquarters Committee on Contracts in accordance with the relevant United Nations regulations and rules. The services of global investment advisers are procured through a special committee consisting of high-level United Nations officials that reviews proposals for advisory services and submits its recommendations on awarding contracts to the Secretary-General for approval and to the Headquarters Committee on Contracts for review. The review of selected contracts by OIOS, however, identified cases where the actions of the Investment Management Service did not comply with United Nations procurement policies and procedures, as illustrated by the following examples:

(a) The Service processed extensions of the terms of the contracts with Fund custodians without the involvement of the Procurement Division;

(b) The Service acted independently in renegotiating the terms and conditions of contracts, including negotiating fees and processing extensions of

contracts and agreements for small capitalization investment advisers having an estimated value of $3 million a year;

(c) The Service did not inform the Procurement Division of amendments to the agreements with small capitalization investment advisers. As a result, not all contract amendments were registered with the Division, as is required. The Service has taken corrective action, and has advised OIOS that copies of contracts processed from 2001 to date have been submitted to the Division;

(d) In one case a written request to continue performing services was issued and communicated to a custodian bank six days after the expiration of the agreement. As a result, the contractor held in custody and operated the funds of UNJSPF for nearly one week without a valid written agreement, which could have put at risk the funds held by the bank. The Service informed OIOS that a procurement tracking system to monitor the expiration of contracts would be available by 31 December 2002.

2. Compliance monitoring and vendor performance review

29. The Service had no system in place to monitor compliance with contract conditions and to ensure the timeliness and quality of the services provided. For example, certain reports and other data required from vendors in accordance with the respective agreements had not been provided. Moreover, vendor performance evaluations were not conducted by the Service on a regular basis. The Board of Auditors also commented in its report on the accounts of UNJSPF for the biennium ended 31 December 2001 on the need for the Service to introduce evaluation criteria and to monitor the performance of the Fund's advisory and custodial service providers.[4]

30. In July 2000, seven months after agreements with an expiration date of 30 November 2002 had been signed with the master record keeper and two regional custodians, the Service processed extensions of the agreements for an additional two years, to 30 November 2004, at an estimated total cost of $3.1 million a year. The management of the Service commented that a decision had been made that all custodial and advisory contracts should be for at least five years instead of two to three years, and therefore all contracts that had already been signed were amended so that they would expire on the same date. However, there was no written justification on file supporting this action.

31. In the opinion of OIOS, any extension of contracted services should be based on a formal evaluation of vendor performance. Taking into consideration that the Service had had problems with the former master record keeper and several custodians in respect of the quality of the services rendered, the premature extension of agreements with vendors that had not provided services to the Investment Management Service or the United Nations before — and without having first evaluated their performance — created a risk of loss to the Fund. In addition, the Service extended the agreement with another custodian for two and a half years at an estimated cost of $250,000 a year without having the extension reviewed by the Headquarters Committee on Contracts.

C. Monitoring the procurement process

32. The Investment Management Service did not have a tracking system that was adequate to monitor procurement requests efficiently from the requisition stage to final payment. This resulted in the following shortcomings:

(a) Procurement requests were not properly authorized, approved and accumulated to provide an audit trail. Requisition logs were not supported by itemized requests, showing a written authorization, date of request and planned delivery dates;

(b) In some cases, the expiration dates of contracts and purchase orders were not adequately monitored. For example, payments were made for legal services in 2001 based on a purchase order that had expired on 31 December 2000;

(c) An overpayment due to a clerical error in the payment instructions was found by the Service almost one year after the incorrect amount had been paid to the vendor.

33. In the opinion of OIOS, an automated tracking system could have prevented the above shortcomings and facilitated the monitoring of the procurement and contract administration process. Given that the Pension Fund secretariat already has an automated procurement tracking system through which procurement requests are generated, authorized and tracked up to the payment phase of the procurement cycle, the Service should consider using this system.

IV. Recommendations[5]

34. Listed below are the critical recommendations made by OIOS to improve the internal controls and procedures of the Investment Management Service, along with comments received from the representative of the Secretary-General at the time of the audits, which are in italics. OIOS will continue to follow up on the Fund's progress in implementing the recommendations.

A. Investment management

Recommendation 1

35. The Investment Management Service should revise its Organization, Policies and Procedures Manual and the manual of the Operations Section to ensure that all policies and procedures governing the work of the Service are fully documented, updated and formally approved. The manuals should reflect the current organization chart and flow of operations, specify internal controls in the investment management process and clearly define the functions and responsibilities for investment decision-making, the execution of transactions and monitoring of the performance of investment managers (AS2001/95/1/01).

36. *The representative of the Secretary-General accepted the recommendation and informed OIOS that it had already updated the Operations Section manual.*

Recommendation 2

37. In order to provide for the proper segregation of duties, the Investment Management Service should revise the existing trading procedures by assigning the function of initial verification of trade confirmations to the Operations Section, which should receive all trade confirmations directly from brokers (AS2001/95/1/02).

38. *The representative of the Secretary-General accepted the recommendation of OIOS to revise the existing trading procedures and indicated that it would amend the manuals accordingly.*

Recommendation 3

39. The Investment Management Service should establish realistic validity periods for executing approved transactions and include those requirements in the Organization, Policies and Procedures Manual (AS2001/95/1/06).

40. *The representative of the Secretary-General accepted the recommendation of OIOS.*

Recommendation 4

41. The Investment Management Service should ensure that approvals of recommendations and trade orders are properly documented and filed and that any verbal instructions made by authorized officials on an exceptional basis are also documented to provide a management trail (AS2001/95/1/08).

42. *The representative of the Secretary-General did not respond to this recommendation.*

Recommendation 5

43. The Investment Management Service should review the current investment process, including the authorization requirements for investment transactions and the use of "full-service" brokers and non-discretionary advisers, in terms of the value of services provided, as well as any excessive costs and duplication of tasks associated with this practice (AS2001/95/1/16).

44. *The representative of the Secretary-General indicated that a thorough review of all non-discretionary advisers had been made in 2000 when all their contracts were reviewed and that a special committee had been constituted to review the requests for proposals that had eventually resulted in the award of contracts to the current advisers.* OIOS reiterates that the review it had recommended does not relate to the process of selecting non-discretionary advisers and procuring their services, but rather relates to ensuring that fair value for money is obtained and that there is no duplication of tasks. OIOS is concerned because it has found no comparable examples of investment industry practices where internal portfolio managers who use full-service brokers are also assisted by non-discretionary advisers in executing investment transactions.

Recommendation 6

45. The Investment Management Service should obtain a cost breakdown by type of service rendered for each non-discretionary advisory services contract and require it in future requests for proposals for such services (AS2001/95/1/17).

46. *The representative of the Secretary-General accepted the recommendation.*

Recommendation 7

47. The Investment Management Service should ensure that monitoring procedures are formalized and that reviews of the quarterly reports submitted by the *small cap* managers are adequately documented (AS2001/95/1/19).

48. *The representative of the Secretary-General advised OIOS that, starting in 2002,* small cap *managers have been required to report on their performance to the*

Investments Committee and indicated that the Investment Management Service would also report to the Investments Committee on the performance of the discretionary advisers on a quarterly basis.

Recommendations 8 and 9

49. The Investment Management Service should:

(a) Establish more appropriate reporting lines and clearly delineate functional responsibilities in accordance with operational requirements (AS2001/95/1/21);

(b) Reassess the requirements for additional investment officers, especially for North American securities, and/or consider outsourcing a portion of the North American equity portfolio to outside discretionary investment managers (AS2001/95/1/22).

50. *The representative of the Secretary-General accepted the recommendations.*

Recommendation 10

51. The Investment Management Service should develop a comprehensive code of ethics for its staff involved in investment management and incorporate it into the policy manual and should require all investment staff to acknowledge in writing annually that they have read and understood the code (AS2001/95/1/23).

52. *The representative of the Secretary-General stated that the case for a separate code of ethics for a particular small group of United Nations staff had not been made and, in this regard, the Pension Board, in June 2002, noted that the United Nations standards of conduct were applicable to the staff of the Investment Management Service, as were the Financial Rules.* OIOS agrees that as international civil servants, the investment staff of the Service are required to perform their professional functions in accordance with the United Nations standards of conduct and the Financial Rules. However, as investment staff they should also follow a code of ethics established for professionals operating in the investment industry. Such a code would include specific elements and requirements not entirely covered by the United Nations code of conduct, such as requirements for annual written acknowledgement of the code of ethics, descriptions of possible conflicts of interest and a policy on personal investments. It should further be recalled that the General Assembly, in paragraph 10 of its resolution 52/252, requested that the Secretary-General prepare additional rules of conduct for particular groups of staff, such as finance officers, procurement officers and staff of separately funded organs. In the opinion of OIOS, the staff of the Investment Management Service should be considered such a group.

Recommendation 11

53. The Service should ensure that appropriate benchmarks are identified in order to evaluate the performance of investment officers and that investment performance reports are customized and attached to the PAS (AS2001/95/1/26).

54. *The representative of the Secretary-General accepted the recommendation.*

B. Procurement and contract administration

Recommendation 1

55. The representative of the Secretary-General for the investments of UNJSPF should review the current contract-signing arrangements concerning agreements/contracts for investment services and make alternative arrangements in order to provide for adequate separation of duties (AS2001/96/1/01).

56. *While recognizing the conflict concerning the signing of agreements/contracts for investment services at UNJSPF, the representative of the Secretary-General advised OIOS that the problem was mitigated through the use of a procedure in which a special committee, consisting of high-level United Nations officials, reviews proposals for advisory services. The special committee submits its reports and recommendations on awarding contracts to the Secretary-General for approval and to the Headquarters Committee on Contracts for information. Agreements and contracts are then signed by the representative of the Secretary-General. The representative of the Secretary-General also stated that the use of the special committee for all investment advisory services would be expanded to cover custodial services.*

Recommendation 2

57. The Investment Management Service should establish, in cooperation with the UNJSPF secretariat, the terms of reference of the procurement function in the investment area (AS2001/96/1/02).

58. *The representative of the Secretary-General accepted the recommendation, advising OIOS that, in cooperation with appropriate offices, including the Procurement Division, formal terms of reference and procedures governing the procurement function and the procurement process within the Service would be established. The representative of the Secretary-General further advised OIOS that a new procedures manual had been issued.*

Recommendation 3

59. The Investment Management Service should issue detailed procedures covering all phases of the purchasing process, including requisitioning, contracting, receipt of goods and services, evaluation of contractor performance, certification of invoices and processing of payments. The Service should also develop a user manual for the record management database system (AS2001/96/1/03).

60. *The representative of the Secretary-General reported that the new procedures manual had been completed and that the next step would be to automate the process through the use of a procurement module linking the Service to the Executive Office of the UNJSPF secretariat.*

Recommendation 4

61. The Investment Management Service should ensure that the negotiation of fees and other conditions of the agreements and contracts, including the extension of their terms, is done through the Procurement Division, Office of Central Support Services, and that any exceptions to the established procurement procedures are properly authorized and documented (AS2001/96/1/04).

62. *The representative of the Secretary-General accepted the recommendation, stating that the Service no longer negotiated fees directly with service providers but assisted the Procurement Division in some specialized areas of fee negotiation.*

Recommendation 5

63. The Investment Management Service should comply with the United Nations procurement policies and requirements: (a) to conduct periodic vendor evaluations in order to assess performance and to validate the continued use of the vendor's services; and (b) to process extensions of contracts through the Procurement Division and to submit them to the Headquarters Committee on Contracts for its review when required (AS2001/96/1/08).

64. *The representative of the Secretary-General accepted the recommendation and advised OIOS that, beginning in 2002, vendor performance would be formally evaluated on a regular basis. The representative of the Secretary-General further stated that the Service would closely monitor the extension of agreements/contracts to ensure compliance with established procedures.*

Recommendations 6 and 7

65. The Investment Management Service should:

(a) Implement an automated procurement system in order to establish control over the procurement process (AS2001/96/1/10);

(b) Ensure that all procurement requests are formally documented, authorized and/or approved before their submission to requisitioning officers and that the requests are properly logged for audit trail purposes (AS2001/96/1/11).

66. *The representative of the Secretary-General accepted the recommendations and stated that the Service was discussing with the Pension Fund secretariat the implementation of a procurement tracking system, which would be available by March 2003. The representative of the Secretary-General also advised OIOS that the expanded procedures had been included in the new procedures manual.*

(*Signed*) Dileep **Nair**
Under-Secretary-General
Office of Internal Oversight Services

Notes

[1] Non-discretionary institutional investment advisers make recommendations on investment strategy and individual investments for the Fund, conduct research, and provide the Investment Management Service with economic, market and security analysis. Discretionary external investment advisers manage the small capitalization accounts of the Fund's portfolio and have the authority to make investment decisions at their discretion. The Service provides them with specific guidelines in managing these accounts.

[2] Custodians are responsible for the safe keeping of securities, the collection of income, the processing of investment transactions and accounting/reporting for the assets under their custody.

[3] The master record keeper is responsible for the consolidated reporting of all securities, financial instruments and other investment obligations held for the account of UNJSPF and all cash equivalents received for the account of the Fund.

[4] *Official Records of the General Assembly, Fifty-seventh Session, Supplement No. 9* (A/57/9), annex XII.

[5] The symbols in parentheses in this section refer to internal codes used by OIOS for recording recommendations.